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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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---------- 065768
R 121652Z FEB 76
FM AMEMBASSY BERN
TO SECSTATE WASHDC 2124
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
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AMEMBASSY LISBON
AMCONSUL ZURICH UNN

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PASS TREASURY AND FRB

E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJ: LEUTWILER AND THE SWISS NATIONAL BANK

BEGIN SUMMARY: LEUTWILER EXPRESSED SATISFACTION AT WHAT HE BELIEVES IS IMPROVED U.S. PERFORMANCE ON INTERNATIONAL FINANCIAL QUESTIONS, BUT IS OPENLY CRITICAL OF JAMAICA. HE THINKS SMUGGLING OF BANK NOTES FROM ITALY IS SUBSTANTIALLY AFFECTING EXCHANGE RATES. IMPRESSIVE INTERNATIONAL HELP TO PORTUGAL WILL SUFFICE FOR SOME MONTHS BUT THEN - LEUTWILER BELIEVES - THE U.S. WILL HAVE TO STEP IN. HE IS NOT OPTIMISTIC THAT FRANCE'S PUBLIC DETERMINATION WILL QUIET THE SPECULATION AGAINST THE FRANC.
END SUMMARY

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1. YESTERDAY I TALKED WITH DR. FRITZ LEUTWILER,

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PRESIDENT OF THE SWISS NATIONAL BANK. HE HAD JUST
RETURNED FROM THE MONTHLY MEETING OF THE BANK FOR
INTERNATIONAL SETTLEMENTS WHERE HE WAS PARTICULARLY
PLEASED TO HAVE MET AND TALKED WITH PAUL VOLCKER.
SO FAR AS U.S. MONETARY POLICIES ARE CONCERNED, HE SAID
THAT, UNLIKE THE SITUATION SOMETIME BACK, HE HAD
"NO COMPLAINTS." HE WOULD LIKE TO SEE THE FED RAISE
INTEREST RATES, BUT REALIZES THAT HE IS NOT IN A
POSITION TO SECOND GUESS US ON THIS QUESTION. HE IS
OPENLY DISSATISFIED WITH JAMAICA, BUT SAYS HE DOES
NOT REALLY BLAME US. HE NOTED THE PRESSURES FROM
THE DEVELOPING WORLD AND THE DIVIDED COUNSELS OF THE
INDUSTRIAL WORLD. HE BELIEVES JAMAICA SPELLS THE
INEVITABLE TRANSFORMATION OF THE IMF INTO AN
"INSTITUTION FOR DEVELOPMENT" LIKE THE IBRD. HE SAID
HA HAS SEEN A PERCEPTIBLE IMPROVEMENT IN U.S. PERFORMANCE
SINCE RAMBOUILLET AND MENTIONED IN PASSING THAT YEO
AT TREASURY HAS BEEN DOING WELL.

2. SO FAR AS ITALY IS CONCERNED, LEUTWILER NOTED THE
HEAVY SMUGGLING OF ITALIAN BANK NOTES FROM NORTHERN
ITALY TO LUGANO. HE SAID THAT ITALIANS HAD BOUGHT OVER
A BILLION SWISS FRANCS DURING A SINGLE THREE DAY PERIOD
IN EARLY JANUARY. IN HIS VIEW THIS HEMORRHAGING FROM
ITALY IS A SUBSTANTIAL FACTOR IN PREVENTING THE
STRENGTHENING OF THE DOLLAR WHICH MIGHT OTHRWISE
BE OCCRING - AS THE USE OF THE DOLLAR AS AN INTER-
MEDIATE TRANSACTION CURRENCY HAS BEEN HAVING AN
IMPACT.

3. LEUTWILER SAID THE BIS DECIDED AT ITS MEETING A
COUPLE OF DAYS AGO TO EXTEND A SECOND $250 MILLION
CREDIT TO PORTUGAL TO HELP THAT COUNTRY IN ITS BALANCE
OF PAYMENTS DIFFICULTIES. ACCORDING TO LEUTWILER,
THE FEDERAL REPUBLIC HAS HELPED TO THE TUNE OF $300
MILLION, AND THE SWISS NATIONAL BANK WITH $50 MILLION.
WITH A $200 MILLION EFTA CREDIT PENDING, AND A $150
MILLION AMERICAN CONSORTIUM CREDIT SPEARHEADED BY
CITY BANK, THE PORTUGUESE ARE RECEIVING SUBSTANTIAL
HELP. NEVERTHELESS, THIS WILL BE SUFFICIENT FOR ONLY
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A FEW MONTHS, FOLLOWING WHICH LEUTWILER BELIEVES THE
U.S. WILL HAVE TO STEP IN WITH LARGE SCALE ASSISTANCE.

3. SO FAR AS FRANCE IS CONCERNED, LEUTWILER IS NOT
OPTIMISTIC THAT FOURCADE'S PROFESSIONS THAT HE DOES NOT
RECOGNIZE THE WORLD "DEVALUATION" WILL BE SUFFICIENT TO
MAKE THE RUMORS AND SPECULATION SUBSIDE.
DAVIS

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